

Flipper Advance with Guaranteed Flip Primer

I. Product Information

Characteristics

The Flipper advance with Guaranteed Flip is a LIBOR (London Interbank Offered Rate) indexed floating-rate advance that converts (“flips”) to a predetermined fixed rate at the end of the floating-rate period.

The flip date is mutually agreed upon at the time of the initial transaction. Members also choose the length of the floating-rate period, the final maturity, and the spread to LIBOR during the floating-rate period. A Flipper advance with Guaranteed Flip with a variable rate of LIBOR minus 24 basis points would have a higher fixed rate than an advance having a variable rate of LIBOR minus 10 basis points given the same final maturity and floating-rate period.

The advance is non-amortizing and typically adjusts to either one- or three-month LIBOR during the floating-rate period. At the end of the floating-rate period, the rate “flips” to a fixed rate for the remaining term of the advance. A Flipper advance with Guaranteed Flip is available with final maturities of two to twenty years and floating-rate periods from three months to 10 years. Principal is due at maturity. Interest is calculated on an actual/360 basis payable monthly on the second business day. Typically a Flipper advance with Guaranteed Flip can be requested up until 1 p.m. for second-day or spot disbursement. Flipper advances with Guaranteed Flip have a \$2 million minimum, but smaller requests may be aggregated during special offerings conducted by FHLB Boston from time to time. Members may choose to prepay the Flipper advance with Guaranteed Flip at any time, subject to a fee. A prepayment fee will be assessed equal to 100 percent of the present value of the lost spread income discounted at the current yield on Federal Home Loan Bank securities of the same maturity as the final maturity of the advance. Prepayment fees will also include any additional costs FHLB Boston may incur including, but not limited to, the cost of terminating interest rate swaps, futures and options contracts, and extraordinary operational or legal costs.

How it Works

Let’s consider a Flipper advance with Guaranteed Flip with a five-year term and a two-year floating-rate period (“5yr/2yr Flipper advance with Guaranteed Flip”). During the floating-rate period, the advance floats to three-month LIBOR less 24 basis points, adjusting on a quarterly basis. If three-month LIBOR were 0.24885 percent when the advance disburses, the initial advance rate would be 0.00885 percent for the first three months. The advance would continue to adjust to three-month LIBOR less 24 basis points on a quarterly basis for the remainder of the floating-rate period. During the floating-rate period, the interest rate can reset at a rate less than zero. At the end of two years (the “floating-rate period”), the advance would flip to the predetermined fixed rate of 3.39 percent until final maturity.

II Uses of the Flipper Advance with Guaranteed Flip

Members generally are attracted to the Flipper advance with Guaranteed Flip when net interest margins are under pressure as a balance sheet funding tool to lower their cost of funds and enhance their net interest margin. At the same time, members are also interested in the assurance that they will have fixed-rate funding after the “floating-rate period” as a hedge against rising interest rates.

FHLB Boston has onsite financial strategists who can help members best decide what type of funding meets their specific needs. If you would like a strategist to put together an analysis, please call the strategists at 800-357-3452 or via email at strategies@fhlbboston.com.

A member should review the [Products and Solutions Guide](#) and the advance application prior to taking an advance so as to understand the terms of the contract and the prepayment provisions.

This statement does not purport to disclose all of the risks and other material considerations associated with a Flipper advance with Guaranteed Flip. Members should not construe this disclosure statement as business, legal, tax, or accounting advice from FHLB Boston. Members should consult with their own business, legal, tax, and accounting advisers with respect to a Flipper advance with Guaranteed Flip and should refrain from using a Flipper advance with Guaranteed Flip unless they have fully understood the terms and risks of the advance.